

Message Text

CONFIDENTIAL

PAGE 01 LONDON 04010 01 OF 03 192100Z

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C O N F I D E N T I A L SECTION 1 OF 3 LONDON 4010

C O R R E C T E D C O P Y (PARAGRAPH TWO)

PASS TREASURY, FRB, AGRICULTURE, COMMERCE

E.O. 11652: GDS

TAGS: EGEN, PFOR, EEC, UK

SUBJECT: WHAT HAPPENS IF BRITAIN LEAVES THE EUROPEAN

COMMUNITY?

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PAGE 02 LONDON 04010 01 OF 03 192100Z

SUMMARY: WITH THE SUCCESSFUL COMPLETION OF EC
RENEGOTIATION AT THE DUBLIN SUMMIT, ATTENTION NOW
SHIFTS TO THE JUNE REFERENDUM. OPPINION POLLS AND
THE SKILL WITH WHICH WILSON HAS HANDLED THIS ISSUE
SO FAR PROVIDE SOME GROUNDS FOR BELIEVING THAT THE
VOTERS WILL OPT FOR CONTINUED EC MEMBERSHIP. A
NEGATIVE VOTE FOLLOWED BY A DECISION TO WITHDRAW IS
STILL A REAL POSSIBILITY, HOWEVER, AND THIS TELEGRAM
DISCUSSES SOME OF THE IMPLICATIONS OF SUCH A DEVELOPMENT.
FOLLOWING A DECISIVE VOTE IN JUNE AGAINST EC MEMBERSHIP,
THE UK WOULD PROBABLY WITHDRAW IMMEDIATELY FROM THE
EC INSTITUTIONS. IT WOULD
PRESUMABLY THEN LOOK FOR ALTERNATIVES TO MEMBERSHIP IN
THE COMMUNITY. A NORTH ATLANTIC FREE TRADE AREA OR
GREATER RELIANCE ON THE COMMONWEALTH ARE EVEN LESS
LIKELY NOW THAN THEY WERE IN THE 1960S. PROBABLY THE
ONLY AVAILABLE ALTERNATIVE IS ONE PROVIDING MAXIMUM
FREE TRADE WITH THE EC UNDER AN AGREEMENT MORE OR LESS
LIKE THOSE WITH THE EFTA NON-APPLICANTS. IN SEEKING
SUCH AN AGREEMENT, BRITAIN WOULD BE IN A WEAK BARGAIN-
ING POSITION, AND THE EIGHT COULD EXACT A HIGH PRICE,
INCLUDING CONCESSIONS ON AGRICULTURE. EVEN A TRUE
FREE TRADE AREA WOULD NOT AFFORT THE SAME POLITICAL
BENEFITS AS EC MEMBERSHIP, BECAUSE A FREE TRADE AREA
CANNOT ACT AS A UNIT ON ECONOMIC AND POLITICAL MATTERS
IN THE WAY THE COMMUNITY CAN DO. THE UK WOULD BE FACED
WITH A STAGGERING ARRAY OF LEGAL AND ECONOMIC ADJUST-
MENTS AS A CONSEQUENCE OF WITHDRAWAL. WHEREVER POSSIBLE,
IT WOULD PRESUMABLY TRY TO MAINTAIN THE STATUS QUO
UNTIL MORE PERMANENT ARRANGEMENTS WERE NEGOTIATED.
WITHDRAWAL WOULD ALSO HAVE ADVERSE EFFECTS ON THE
UK'S DOMESTIC ECONOMY. (THE DOMESTIC POLITICAL EFFECTS
OF A NEGATIVE VOTE IN THE REFERENDUM WILL BE DEALT WITH
IN A SEPARATE MESSAGE.) OVER THE LONGER RUN, THE UK
WOULD FACE THE PROBLEM OF REDEFINING ITS WORLD ROLE.
THE RANGE OF CHOICES WOULD BE LIMITED. AT BEST, IT
COULD BECOME A FAIRLY PROSPEROUS OIL-PRODUCING
EUROPEAN ECONOMY. IT WOULD CONTINUE TO BE TIED TO THE REST
OF EUROPE THROUGH NATO AND THE OECD, AND WOULD
EXERCISE POSITIVE -- IF LIMITED -- INFLUENCE IN WORLD
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PAGE 03 LONDON 04010 01 OF 03 192100Z

AFFAIRS. OVER THE LONGER RUN, IT MIGHT WITHDRAW INTO
A GREATER INSULARITY, WHICH COULD WEAKEN BOTH ITS
ECONOMY AND ITS EUROPEAN TIES. AS FAR AS US INTERESTS
ARE CONCERNED, THE PROSPECT OF UK WITHDRAWAL IS NOT A
HAPPY ONE. THE TECHNICAL ADJUSTMENTS AND FREE TRADE
AREA NEGOTIATIONS WOULD BRING THE REST OF EC BUSINESS
TO A VIRTUAL STANDSTILL. THE UK-EC FREE TRADE AREA
COULD AFFECT US ECONOMIC INTERESTS ADVERSELY. BRITISH

WITHDRAWAL FROM THE EC COULD BE DAMAGING TO NATO.
AND, FROM A BROADER POINT OF VIEW, A WEAK BRITAIN OUT-
SIDE THE COMMUNITY IS FAR LESS VALUABLE TO THE UNITED
STATES THAN ONE INSIDE, WHERE IT CAN INFLUENCE EC
POLICIES AND WHERE IT ADDS WEIGHT AND A WORLD PER-
SPECTIVE TO THE EUROPEAN SIDE OF THE US-EUROPEAN
PARTNERSHIP. END SUMMARY

1. IF THE JUNE REFERENDUM RESLTS IN A DECISIVE VOTE
AGAINST CONTINED MEMBERSHIP IN THE EUROPEAN COMMUNITY,
THE UK WOULD PROBABLY WITHDRAW ALMOST IMMEDIATELY FROM
THE EC INSTITUTIONS, INCLUDING THOSE RELATED TO EC
POLITICAL COOPERATION. THE BRITISH WOULD THEN FACE
THE DUAL PROBLEM OF SEEKING AN ALTERNATIVE TO THE EC
AND UNDOING SOME OF THE ECONOMIC AND LEGAL ADJUSTMENTS
THAT HAVE BEEN MADE AS A RESULT OF MEMBERSHIP.

2. BRITAIN WOULD HAVE A THEORETICAL CHOICE OF THREE
ALTERNATIVES TO EC MEMBERSHIP: A) CREATION OOF A NORTH
ATLANTIC FREE TRADE AREA (NAFTA), INCLUDING THE US,
CANADA, UK AND PERHAPS THE PRESENT MEMBERS OF EFTA;
B) GREATER RELIANCE ON THE COMMONWEALTH; AND :C) A FREE
TRADE ARRANGEMENT WITH THE EC, SIMILAR TO THE EC'S
AGREEMENTS WITH THE EFTA NON- APPLICANTS.

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PAGE 01 LONDON 04010 02 OF 03 150216Z

12
ACTION EUR-12

INFO OCT-01 ISO-00 AGR-05 AID-05 CEA-01 CIAE-00 COME-00

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CONFIDENTIAL SECTION 2 OF 3 LONDON 4010

3. THE FIRST TWO ALTERNATIVES, WHICH WERE CONSIDERED IN THE 1960S WHEN FRANCE WAS BLOCKING BRITAIN'S WAY INTO THE COMMUNITY, ARE EVEN LESS LIKELY NOW THAN THEY WERE THEN. THE BRITISH KNOW THAT THE US WOULD NOT BE INTERESTED IN A REGIONAL TRADING BLOC SUCH AS NAFTA, AS IT WOULD BE TOTALLY INCONSISTENT WITH OUR DETERMINATION TO DEAL WITH WORLD ECONOMIC PROBLEMS ON A MULTILATERAL BASIS. POLITICALLY, BRITAIN WOULD BE

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PAGE 02 LONDON 04010 02 OF 03 150216Z

OVERSHADOWED -- IF NOT ECLIPSED -- IN ANY SUCH ARRANGEMENT.

4. THE COMMONWEALTH ALTERNATIVE IS EQUALLY UNPROMISING. THE UK'S TRADITIONAL TRADING PATTERNS WITH THE REST OF THE COMMONWEALTH HAVE BEEN GRADUALLY ERODED. THE OTHER COMMONWEALTH COUNTRIES HAVE DIVERSIFIED THEIR EXPORT MARKETS, WHILE BRITAIN HAS SHIFTED ITS TRADE TO WESTERN EUROPE. (IN 1958, 31 PER CENT OF BRITISH EXPORTS WENT TO WESTERN EUROPE; FOR 1973, THE FIGURE WAS 50 PER CENT.). AUSTRALIA AND NEW ZEALAND ARE NO LONGER INTERESTED IN EXPORTING FOOD TO BRITAIN CHEAPLY WHEN THEY CAN GET HIGHER PRICES ELSEWHERE. THE DEVELOPING COMMONWEALTH COUNTRIES WILL BE MORE INTERESTED IN THEIR NEW ASSOCIATION ARRANGEMENTS WITH THE EC THAN IN SPECIAL TRADE LINKS WITH THE UK. FROM A POLITICAL POINT OF VIEW, THE COMMONWEALTH IS TOO LOOSE AND DIVIDED A GROUPING TO SERVE AS A PLATFORM FOR A BRITISH WORLD ROLE.

5. THE ONLY AVAILABLE ALTERNATIVE, THEN, IS FOR BRITAIN TO ATTEMPT TO CONCLUDE SOME FORM OF FREE TRADE ARRANGEMENT WITH THE EC, SIMILAR TO THE ONE THAT NORWAY CONCLUDED AFTER ITS REFERENDUM WENT AGAINST MEMBERSHIP. IN DOING SO, BRITAIN WOULD PRESUMABLY SEEK TO

RETURN TO EFTA, IN ORDER TO HAVE A LEGAL FRAMEWORK FOR ITS TRADE RELATIONS WITH THE OTHER EFTA NON-APPLICATNS, A STEP THAT WOULD INVOLVE ONLY MINOR TARIFF ADJUSTMENTS. BRITISH OFFICIALS CONSIDER THAT THE OTHER EC MEMBER STATES WOULD PROBABLY AGREE TO SUCH AN ARRANGEMENT, BUT THEY CONCEDEDTHAT THE NEGOTIATIONS WOULD NOT BE EASY. BRITAIN'S BARGAINING POSITION WOULD BE WEAK. IT WOULD HAVE ABROGATED A NUMBER OF EC TREATIES, NONE OF WHICH PROVIDE FOR WITHDRAWAL. MORE IMPORTANT, IT WOULD NO LONGER HAVE THE BARGAINING POWER THAT COMES FROM BEING ABLE TO VETO DECISIONS IN THE EC COUNCIL. THE EIGHT WOULD PROBABLY TRY TO EXACT A HIGH PRICE, POSSIBLY INCLUDING A BRITISH GUARANTEE TO IMPORT EC AGRICULTURAL PRODUCTS ON A PREFERENTIAL BASIS.

6. EVEN MEMBERSHIP IN A TRUE FREE TRADE AREA WOULD NOT
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PAGE 03 LONDON 04010 02 OF 03 150216Z

OFFER BRITAIN THE KIND OF POLITICAL BENEFITS THAT IT HAS SOUGHT IN THE EC, AS A FREE TRADE AREA CANNOT ACT AS A UNIT ON ECONOMIC OR POLITICAL MATTERS IN THE WAY THAT THE EUROPEAN COMMUNITY SOMETIMES DOES. BRITAIN WOULD, OF COURSE, REMAIN AN IMPORTANT EUROPEAN COUNTRY, AND THE OTHER MEMBER STATES WOULD COOPERATE WITH IT POLITICALLY ON AN AD HOC BASIS. IT IS EXTREMELY DOUBTFUL, HOWEVER, THAT THEY WOULD ALLOW BRITAIN TO REMAIN IN THE EC'S POLITICAL COOPERATION INSTITUTIONS, AS THESE ALREADY OVERLAP (FOR EXAMPLE, IN THE CASE OF THE EURO-ARAB DIALOGUE) WITH THE ECONOMIC SIDE OF THE EC AND ARE LIKELY TO DO SO INCREASINGLY.

7. WHILE SEEKING AN ALTERNATIVE TO EC MEMBERSHIP, THE UK WOULD ALSO BE FACED WITH A STAGGERING ARRAY OF TECHNICAL PROBLEMS RAISED BY WITHDRAWAL. FOR EXAMPLE, SHOULD THE CUSTOMS DUTIES BETWEEN THE UK AND THE OTHER MEMBER STATES, WHICH BY NOW HAVE BEEN REDUCED BY 60 PER CENT, BE ALTERED, AND IF SO, HOW ? WHAT SHOULD BRITAIN DO ABOUT ITS AGRICULTURAL SUPPORT PRICES, WHICH HAVE BEEN PARTICULARLY ALIGNED WITH EC SUPPORT LEVELS? HOW SHOULD THE UK HANDLE ALL THE EC DIRECTIVES AND REGULATIONS WHICH IT ACCEPTED AS A CONDITION OF MEMBERSHIP, AND WHICH IT IS NOW APPLYING AS DOMESTIC LAW? WHAT ABOUT THE COMMUNITY'S TRADE AND ASSOCITION AGREEMENTS WITH MORE THAN SEVENTY-FIVE COUNTRIES THROUGHOUT THE WORLD, TO WHICH THE UK IS NOW A PARTY? AND THE ARTICLE XXIV:6 SETTLEMENT WITH THE US?

8. ACCORDING TO BRITISH OFFICIALS, THE UK HAS NO
CONTINGENCY PLANS FOR DEALING WITH THESE TECHNICAL

PROBLEMS. WHEREVER POSSIBLE (FOR EXAMPLE, ON TARIFFS, AGRICULTURAL PRICES, AND TRADE RELATIONS WITH THIRD COUNTRIES), IT WOULD PRESUMABLY TRY TO MAINTAIN THE STATUS QUO UNTIL MORE PERMANENT ARRANGEMENTS ARE NEGOTIATED. AS FOR DOMESTIC LEGISLATION (RULES ON FOOD ADDITIVES, STANDARDS FOR MOTOR VEHICLES, ETC.),

THE UK WOULD HAVE TO DECIDE ON A CASE-BY-CASE BASIS WHETHER TO MAINTAIN THE CHANGES THAT HAVE BEEN MADE TO CONFORM WITH EC RULES, OR TO REVERT TO PREVIOUS
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PAGE 04 LONDON 04010 02 OF 03 150216Z

BRITISH PRACTICE.

9. A DECISION TO WITHDRAW FROM THE COMMUNITY WOULD HAVE ADVERSE EFFECTS ON THE UK'S DOMESTIC ECONOMY. SOME OFFICIALS AND POLITICAL FIGURES PREDICT THAT A NEGATIVE REFERENDUM VOTE WOULD START A RUN ON STERLING -- A POINT THAT THE PRO-MARKETEERS ARE LIKELY TO STRESS ON THE REFERENDUM CAMPAIGN. OTHER ANALYSTS, INCLUDING OFFICIALS AT HM TREASURY, BELIEVE THAT THE EFFECT ON STERLING MIGHT NOT BE SO SERIOUS. A DECISIVE VOTE WOULD PROBABLY HAVE BEEN FORESHADOWED BY THE OPINION POLLS, AND IN ANY EVENT THE GENERAL STATE OF THE ECONOMY IS LIKELY TO BE A MORE IMPORTANT FACTOR IN STERLING'S PERFORMANCE THAN THE REFERENDUM. OVER

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PAGE 01 LONDON 04010 03 OF 03 150226Z

12

ACTION EUR-12

INFO OCT-01 ISO-00 AGR-05 AID-05 CEA-01 CIAE-00 COME-00

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C O N F I D E N T I A L SECTION 3 OF 3 LONDON 4010

THE LONGER RUN, HOWEVER, A DECISION BY THE UK TO
WITHDRAW FROM THE EC WOULD FURTHER REDUCE BUSINESS
CONFIDENCE, AND MAKE IT EVEN MORE DIFFICULT THAN IT
IS TODAY TO GENERATE THE INVESTMENT THAT IS NEEDED TO
INCREASE BRITAIN'S LAGGING RATE OF PRODUCTIVITY.
(A NEGATIVE REFERENDUM RESULT COULD ALSO HAVE DIS-
RUPTIVE DOMESTIC POLITICAL EFFECTS. THIS WILL BE THE
SUBJECT OF A SEPARATE MESSAGE.)
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PAGE 02 LONDON 04010 03 OF 03 150226Z

10. ONCE OUTSIDE THE COMMUNITY, BRITAIN WOULD FACE
THE LONGER-RANGE PROBLEM OF REDEFINING ITS WORLD ROLE.
THE RANGE OF CHOICE WOULD BE LIMITED. AFTER ADJUSTING
IN THE POSTWAR ERA TO THE LOSS OF IMPERIAL AND
GREAT-POWER STATUS, THE UK WOULD NOW HAVE TO FOREGO
THE OPTION OF EXERTING INFULENCE THROUGH A POTENTIALLY
STRONG EUROPEAN COMMUNITY. AT BEST, IF MAJOR CHANGES
WERE MADE IN ITS DOMESTIC ECONOMIC STRUCTURE, AND PERHPAS
ITS SOCIAL CUSTOMS, BRITAIN COULD BECOME
PROSPEROUS ALONG THE LINES OF A LARGE NORWAY. IT WOULD
CONTINUE TO BE TIED TO THE REST OF EUROPE THROUGH
NATO AND OECD, AND COULD EXERCISE SOME POSITIVE,
IF LIMITED, INFLUENCE IN WORLD AFFAIRS. ALTERNATIVELY,
IT WOULD BEGIN A GENERAL WITHDRAWAL INTO A SELF-
CENTERED INSULARITY THAT OVER THE LONG RUN COULD
AFFECT BOTH ITS ECONOMY AND ITS EUROPEAN TIES.

11. AS FAR AS US INTERESTS ARE CONCERNED, THE IMPLICATIONS OF A DECISION TO WITHDRAW ARE NOT PROMISING. INITIALLY, THE EFFORTS OF THE COMMUNITY AND THE UK TO MAKE THE TECHNICAL ADJUSTMENTS INVOLVED IN WITHDRAWAL AND TO NEGOTIATE A FREE TRADE ARRANGEMENT WOULD BRING THE REST OF THE COMMUNITY BUSINESS TO A STANDBY. THIS WOULD MAKE IT DIFFICULT TO PROCEED WITH THE MTN, AND WOULD COMPLICATE US-EC BILATERAL RELATIONS. THE FREE TRADE AREA WHICH THE UK WOULD NEGOTIATE WITH THE COMMUNITY MIGHT RESULT IN TRADE DISCRIMINATION AGAINST THE US WITHOUT THE POLITICAL BENEFITS THAT COME FROM BRITAIN'S PRESENCE IN THE EC. THE POSSIBLE GAINS FOR US AGRICULTURAL EXPORTS TO THE UK THAT COULD COME FROM BRITAIN'S WITHDRAWAL MIGHT NEVER MATERIALIZE IF THE UK HAS TO MAKE AGRICULTURAL CONCESSIONS IN ORDER TO GET A FREE TRADE AREA.

12. BRITISH WITHDRAWAL FROM THE EC COULD ALSO BE DAMAGING TO NATO. ALTHOUGH THE SECURITY RELATIONSHIP EMBODIED IN NATO IS THEORETICALLY DISTINCT FROM AND INDEPENDENT OF THE COMMERCIAL, FINANCIAL, AND OTHER TIES EXISTING AMONG ITS MEMBERS, THE RESENTMENTS GENERATED BY BRITAIN'S DEPARTURE FROM THE EC ARE CONFIDENTIAL

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PAGE 03 LONDON 04010 03 OF 03 150226Z

ALMOST BOUND TO IMPINGE ON COOPERATION WITHIN NATO. THE DOUBTS RAISED ABOUT BRITAIN'S LONG-RANGE INTER-TIONS TOWARDS EUROPE WOULD, FOR EXAMPLE, TEND TO SLOW DOWN THE MODEST PROGRESS BEING MADE BY THE EURO-GROUP TOWARDS MORE CONCRETE EUROPEAN DEFENSE COOPERATION WITHIN THE ALLIANCE.

13. FINALLY, A BRITISH DECISION TO REMAIN OUTSIDE A UNITING EUROPE WOULD HAVE A BROADER ADVERSE CONSEQUENCES FOR US-EUROPEAN RELATIONS. BRITAIN IN THE EC HAS OBJECTIVES AND INTERESTS THAT PARALLEL OUR OWN, AND, ON THE WHOLE, HAS INFLUENCED THE FORMATION OF COMMUNITY POLICIES IN A WAY THAT IS HELPFUL TO US INTERESTS. A BRITAIN OUTSIDE THE EUROPEAN COMMUNITIES COULD NO LONGER BRING THIS INFLUENCE TO BEAR. FURTHERMORE, THE FACT THAT BRITAIN ELECTED TO REMAIN OUTSIDE AN ECONOMICALLY AND POLITICALLY UNITING EUROPE WOULD SERIOUSLY DAMAGE THE LONG-RANGE GOAL OF AN INTEGRATED COOPERATIVE GROUP OF EUROPEAN STATES. A BRITAIN THAT IS FULLY INTEGRATED IN THE EC ADDS WEIGHT AND A WORLD PERSEPECTIVE TO THE EUROPEAN SIDE OF THE US-EUROPEAN PARTNERSHIP. ITS WITHDRAWAL COULD CUT ACROSS OUR EFFORTS TO REVITALIZE THAT PARTNERSHIP.

14. COMMENT: WE HAVE PROBED TO SEE WHETHER AND TO

WHAT EXTENT BRITISH HAVE DONE ANY CONTINGENCY PLANNING FOR WITHDRAWAL. THE ANSWER IS CLEARLY NO. AS JOHN KILLICK POINTED OUT TO DCM IN RESPONSE TO THIS QUESTION, A CONSENSUS ON IMPLICATIONS WOULD BE IMPOSSIBLE TO ACHIEVE, AS WOULD ANY CONSENSUS ON ALTERNATIVE COURSES OF ACTION. THERE ARE ALSO, OF COURSE, FEARS RE CONSEQUENCES OF LEAKS ABOUT ANY SUCH EFFORT. SOME, SUCH AS WILLIAM RODGERS, FEEL THAT ENTIRE WESTERN ALLIANCE, INCLUDING NATO, WOULD BEGIN TO UNRAVEL IN AN IRREVERSIBLE WAY. OTHERS AMONG PRO-MARKETEERS FEEL CONSEQUENCES WOULD BE MINOR EXCEPT IN TERMS OF LOST OPPORTUNITIES. ANTI-MARKETEERS, OF COURSE, FEEL THAT ANY REPERCUSSIONS WOULD BE "SHORT-LIVED AND ENTIRELY MANAGEABLE," AS PETER SHORE SAID.

15. WE WOULD WELCOME ASSESSMENTS OF OTHER ADDRESSEES
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PAGE 04 LONDON 04010 03 OF 03 150226Z

RE REACTIONS IN EVENT UK WITHDRAWAL, WITH PARTICULAR REFERENCE TO PROBLEMS AND PROSPECTS FOR NEGOTIATION OF A FREE TRADE ARRANGEMENT.

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